

REGIONAL ECONOMIC CO-OPERATION AND INTEGRATION INTO WIDER EURO-ATLANTIC STRUCTURES - THE MUTUALLY REINFORCING LINK

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Economic Development and Cooperation - Sine Qua-Non of Security and Stability

At the previous NATO Economics Colloquium where I also had the honour to be a lead speaker, I started with a quotation saying that "it has long been a staple in international relations that economics and security conflict with each other".¹ With the hope you will not conclude that all I can do is make quotations, I will venture a couple more.

First, from Article 2 of the Washington Treaty of 1949:

*"The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and wellbeing. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them."*²

This article speaks for itself, and represents alongside the famous Article 5 what NATO has been all about. And Article 2 is particularly relevant for our debate in this 2001 NATO Economics Colloquium, because it speaks about encouraging economic collaboration among the Allies. That is, NATO stimulates economic co-operation as economic co-operation strengthens NATO.

Second, by the NATO Secretary General on 15 March 2001 at the British Chamber of Commerce in Belgium:

"Nowhere else has the link between economics and security been more explicit than in the twin project of the Marshall Plan and NATO.

Indeed, as US President Truman later put it, the Marshall Plan and NATO were 'two halves of the same walnut'. And when you look at how far we have come, this twin project has brought spectacular dividends".³

This is also a very good definition for the project that the Euro-Atlantic community is now facing in Central and Eastern Europe - on one hand, to encourage political and economic integration, whilst on the other to strengthen and project security and stability.

Today, the threats to Euro-Atlantic security and to the Balkans in particular are of a different nature than in the former so-called "bipolar world". They involve new types of "complications". Globalisation - alongside its multiple positive effects - gives rise to new challenges: smuggling, organised crime, terrorism, illegal migration, economic instability, failure in reforms, and threats to the environment. Such are the current consequences of the heavy burden of transition.⁴

The concept of security itself has thus been undergoing a transformation process with economic, political, social and environmental aspects becoming more and more evident. The old perception or maybe the old cliché that one has to choose - more or less visibly - between economy and security on the assumption that it is almost impossible to effectively address both simultaneously does not now apply.

Many have thought and still think that with regard to security, what should matter most would be national sovereignty and security from external attack. All other concerns, including pursuit of economic well being, were considered to be of lesser importance. But these clearly are artificial priorities, even if one would use a narrow definition of security.

First, they ignore the material and economic underpinnings of military power and national security. Second, they take for granted that states are independent both from the international economy and from the domestic environment when mobilising economic resources in support of security objectives. Or, to achieve national security objectives in an interdependent world with an interdependent or global economy, any state of whatever size must have access to a wide array of resources (often called "strategic goods"). Hence an important economic dilemma: should countries attempt to produce as many of these strategic requirements as possible domestically, by striving for

autarky, or should they trade for them on the international market? Autarky of course is inconceivable today. It entails both economic costs, since it promotes economic inefficiency, and strategic costs, since it requires countries to produce defence goods that it may not be well suited to produce. The resource acquisition dilemma is, in fact, part of a broader political economy dilemma with profound security implications: whether to organise the national economy in accordance with the principles of economic nationalism or those of economic integration.

The reliance of states on both domestic support and international sources of supply in order to meet their security complicates military strategies, but, at the same time and much more importantly, it affords opportunities to achieve strategic goals through economic means rather than military force.

Translating the Economic Experience of Western Europe to CEE

Everyone has to admit that a divide between a secure and economically prosperous West and a less secure, less prosperous East is not sustainable. So, the challenge ahead is quite clear: there is a clear need to create economic prosperity and political stability in the whole Euro-Atlantic area.

One of the major ideas is to apply, adapted to the present circumstances, the formula that worked so well in Europe's Western half, which was to build stability through Euro-Atlantic structures, thereby helping to foster economic prosperity. And then promoting economic prosperity to lock in stability. This is the very definition of a mutually reinforcing process. Good for stability, therefore good for investment, therefore good for prosperity.⁵ That said and bearing in mind the links between economics, security and stability, it has become more and more obvious over the past years that countries belonging to CEE could not imagine their own future other than within the European and Euro-Atlantic structures. It is equally obvious - or at least it should be - that developing and strengthening regional economic co-operation is one of the first major steps towards integration. For this, action-oriented regional projects are required with clear designs.

Some reluctance was registered in this respect immediately after 1989, mainly because of COMECON's previous experiences. Later on and slowly, the need for and the potential of regional links began to be exploited. One indisputable proof was the emergence of market players that are competitive in both domestic and international business environments. Private firms largely oriented towards profit maximisation displayed a strong tendency to address regional co-operation by means of redistributive operations borne by growth in real output and the efficient use of production factors.

Everyone has to recognise that regional (economic) co-operation is indeed very helpful in ongoing preparations for integration. It is beneficial for each of the participants and it is an important factor in promoting economic development. It also contributes to strengthening confidence and, as a consequence, to broadening stability and security.

Without sound and sustainable economic development, no real and lasting solution can be found to problems such as those in SEE. The relationship with international financial institutions is very important in order to ensure foreign financing and access to capital markets. But, in the end, the key factor remains the capacity of every country to attract private capital. Prescriptions cannot be "offered" but "success stories" have occurred.

Solutions involving "robust" processes of restructuring and privatisation, export promotion, expansion of key economic sectors (processing industry, construction, trade), and the development of a future IT-based economy could lead to substantial economic growth and the integration into wider Euro-Atlantic structures. All of these did not come from nowhere but as results of "lessons learned" during the past decade. Drawing upon that experience, Romania's included, one could at the very least identify the following lessons:⁶

- Constructive relations with neighbours. The foundation of new regional policies can be built through bilateral treaties, but also by encouraging and initiating various arrangements of sub-regional co-operation. These have to begin by looking towards the future and not to the past;

- Not being part of the problem is important. Trying to be part of the solution is essential. Whether it is spurring initiatives of regional co-operation, building solidarity and support for NATO-led operations

(like SFOR and KFOR) or assuming the OSCE Chairmanship, Romania, like other countries in the region, is showing that it is committed to provide greater stability and security to the international environment;

- Developing team spirit. Solving problems with one's neighbours is not enough. Their diversity could startle anyone with the curiosity to look into the network of (sub-) regional co-operation arrangements in Central and SEE. The Central European Free Trade Agreement, the Central European Initiative, the Black Sea Economic Co-operation Organisation, the South-East European Co-operation Process, the South East European Defence Ministerial, the NATO/SEEI - just to name a few - have done a lot in terms of building confidence and laying the groundwork for more comprehensive forms of integration. Off course, Romania, like most of the countries involved, does not see all these arrangements as substitutes for NATO or EU, but as instruments for speeding preparations for membership.

- Learning - and sharing - the rules of the democratic game and of market economic behaviour, these being the rule of law, respect for human rights and fundamental freedoms, building a strong civil society, freedom of the press, and participation of national minorities in the decision making process;

- Getting the economy right. In this context, the Stability Pact for South-East Europe continues to show how important it is to build synergy among all partners involved in building security, stability and prosperity in the whole Euro-Atlantic area.

Let us try to see where we are, both from the perspective of these lessons and from the various schemes of co-operation which I have already mentioned. What needs to be done to upgrade and substantiate further regional economic co-operation as an instrument to promote stability, security and integration?

• **CEFTA**

The CEFTA is harmonised with WTO principles. WTO membership in itself dictates the reduction of customs protection and the limitation of subsidies. But CEFTA also combines its multilateral general part with bilateral agreements on the liberalisation of trade among members. The results speak for themselves: trade among CEFTA

members increased significantly. CEFTA has also proved to be a good "training ground" for EU membership.

• **Cross-Border Projects**

Past experiences in this field, be they bilateral projects or Euro-regions related ones, are more than encouraging and have started to bear fruit. It emerged that developing infrastructure programs in support and/or part of economic development and regional integration could create the road to stability and prosperity. That applies to South Eastern Europe as well and the Stability Pact is a key factor for the success of such endeavours.

Indeed, without adequate infrastructure services (transport, energy, telecoms and water) linking countries together, trade cannot flourish; and without adequate communication facilities, citizens of different countries cannot be in reliable contact with each other, which also constrains possibilities for trade. It is important to stress, however, that while infrastructure is essential it is not sufficient. Investments without the reforms necessary to strengthen institutions and promote development of the private sector will not be sustainable and will not generate their full potential benefits in terms of durable economic growth and prosperity for the region.

No doubt, infrastructure has important regional dimensions. First, significant efficiency gains could be made by pursuing infrastructure development regionally rather than on a national level. Second, since the benefits from regional projects are realised beyond national borders, fair mechanisms for both financing and burden sharing of these regional projects could be established, again at a regional level.

• **BSECO**

The Black Sea region has always been at the crossroads of East-West, North-South routes. But beyond that, countries forming BSECO comprise an area of nearly 20 million square km, a market of over 330 million people (where, in some sectors, supply still remains behind demand) and an annual foreign trade capacity of over US\$300bn. It also encompasses a mixture of long histories, rich cultures and diverse life styles.

Cooperation within the Black Sea region would certainly bring a "fresh breeze" in international relations. Having these prospects in mind, Heads of State or Government of 11 countries in the region decided to form BSECO on the following terms: "confrontation is out, co-operation is in" and "isolation is out, engagement is in".⁷ The aim of BSECO is - and will continue to be - the establishment of BSEC-wide security, stability and prosperity. Its major mechanism - regional economic co-operation. One additional and particularly important aspect, especially from the perspective of NATO enlargement, is that BSECO's membership consists of countries which are already members of the Alliance, countries which aspire to that position and, finally, countries that for one reason or another do not envisage seeking or are unlikely to ever get NATO membership. Developing important economic projects within BSECO would nevertheless contribute to strengthening confidence among those countries and thus to a diminishing of perceptions within some of them that enhancing NATO is directed against somebody.

That applies also to co-operation in the Baltic and Barents Seas. Hence the idea that I fully subscribe to of a working relationship among these "sea-based" regional schemes of co-operation.

One thing is certain: alongside individual internal preparation efforts and transformations, cooperation through (regional) projects of common interest should be an engine driving the CEE - and especially SEE - towards the West. Without bankable projects, regional and sub-regional initiatives will however continue to remain mainly politically oriented structures.

Prospects for Regional (Economic) Co-operation in the Framework of Integration Demarches

There is no doubt that one of the main challenges, especially for SEE countries in the coming years, lie in creating a reliable institutional and policy environment which attracts investment flows and encourages both the growth of a new private sector and the restructuring of the old. Such an environment would also improve the functioning of markets, foster entrepreneurial and market skills, and, last but not least, strengthen the confidence of the population in the reform process(es).

Of course, the primary responsibility for shaping the response to the transition challenges lies with the countries themselves. Internal adjustments (reforms, functional market economy, and fight against corruption) should be made as significant and indispensable steps towards a healthy (economic) climate. The political support for reform, which is crucial to its success, must be constructed internally. However, the international community could make a major contribution, working in partnership with countries in transition. These countries have opened their markets and are reorienting their trade. The international community could work towards promoting the growth and further opening of markets into the world economy. This is not easy but it can be done. One essential ingredient is the (political) will.

To reach concrete results in this respect means, *inter alia*⁸:

- Co-ordination and correlation among various (sub-) regional initiatives;
- Developing sound co-operative projects (e.g. re/building bridges over the Danube);
- Substantial involvement of foreign investors, both public and private (with possible margins of preferences for companies/joint-ventures from the region).

Some prerequisites for bringing lasting stability and sustainable development in the CEE region could be addressed as follows:

• **EU and NATO Enlargement**

Successful EU enlargement is economically and politically a win-win situation for all parties concerned. It is clear that the question is no longer "if" but rather "when" and "how" the EU will enlarge. Given the immense political progress that most candidate countries have demonstrated, the grounds for optimism remain sound. One should look to the way in which trade between each of the CEE countries and the EU area has evolved to see this. Indeed, the EU has already become for all of them by far the main trade and economic partner.

As for NATO, it became absolutely clear that prospects for enlargement are an important stimulating factor for investment and economic development. The case of the three youngest members of

the Alliance is convincing proof in this respect. Moreover, prospects for NATO membership clearly stimulate co-operative attitudes. One example in this respect is NATO's SEEI project, the development of which has so far been quite promising. The drafting of the SEECAP (Southeast Europe Common Assessment Paper on Regional Security Challenges and Opportunities) has almost been completed. As it stands, the current draft sets out the common perceptions on the strategic environment, the political, military, economic, environmental, civil emergency and social challenges to security and stability in Southeast Europe. The document has been designed as a beginning and not as an end in itself, looking ahead in terms of concrete follow up to address the challenges identified.

Another example is that to prepare for NATO membership, all aspirant countries need sound and deep reforms in the defence sector and this has important economic implications. Such transformations cannot be made other than through close co-operation with partners from NATO member states. It is particularly important that they also stimulate co-operation and exchange of experience among the aspirants themselves, thus contributing to the development of a new (i.e. allied type) defence culture. The MAP process is a case in point.

Everyone is aware that there is no magic formula when it comes to promoting long-term security and stability. This goes also for regional co-operation, which is a catalyst, but not a panacea. Regional leadership and ownership should have to go hand in hand with international engagement and commitment. Certain complex issues will have to be addressed, on both a short- and mid-term basis, with the international community's strong support. EU and NATO are majors in the field. So goes for prospects of membership in them.

• **Interregional Trade**

There is little doubt that intra-regional trade can expand and be a stimulus for growth, even though the economic structures of some of the countries are quite similar, leaving less room for obvious increased trade opportunities based on structural complementarities. The size of the economies and markets of South Eastern Europe suggest that the stimulus would be far smaller than the stimulus provided by closer integration with the EU and should not be seen as an alternative to EU integration; but progress in intra-regional integration is needed both for

its direct economic benefits and the contribution it makes to the wider political integration of these countries. At the same time, increased intra-regional trade should not imply the re-establishment of some of the economic links that existed under the former COMECON, which would be neither desirable nor feasible.

That is why, in the case of SEE, Romania considers that speeding up the implementation of the economic dimension of the Stability Pact is crucial. Indeed, success in promoting the other two dimensions - namely security/stability and human rights/democracy - will greatly depend upon the Table II evolutions.

Effective integration demarches require a critical mass of projects. Volume, as well as quality of projects, are important. That is why all initiatives, regional ones included, have to adopt a strategic approach to portfolio management. This means that both the stock of existing projects and the flow of new commitments have to be managed to pursue economic and social goals whilst balancing risks and costs. Specific tools are required to underpin this approach. These include, inter alia, ex ante and ex post assessments of economic and social impact, effective risk-based allocation of resources and a more detailed framework for managing and monitoring costs and profitability. There is also a great need for transparency and predictability as incentives for investment and economic growth. In this respect, priorities could be itemised as follows⁹ :

- Setting up a sound financial sector, which commands the confidence of the population, facilitates transactions, and intermediates effectively and efficiently between savers and (foreign) investors. Special attention has to be paid to building financial services that serve the needs of the real economy, including those of small and medium-sized enterprises;

- Business start-ups and the growth of SMEs are vital to transition particularly through the nurturing of entrepreneurship, new jobs and social stability. An institutional (international) commitment to SMEs could use instruments like credit lines, microlending, equity and venture funds, and technical assistance;

- Sound, market-based and customer-oriented infrastructure is a key component of progress. Infrastructure operations could pursue a full range of financing structures (including private, sovereign and public/private partnerships);

- The scale and nature of the industrial legacy of the command economy pose a major challenge. One has to seek to support the restructuring of potentially viable (large) enterprises by carefully selecting projects that have a strong "demonstration effect". Experience has shown the importance of strategic investors.

- Equity investment could have a powerful impact in providing risk capital and promoting sound business practices and corporate governance.

- Sound and reliable institutional and policy environments are essential for generating the investment flows needed to move transition forward. A sound investment climate is based on a supportive and effective regulatory framework, business integrity and sound corporate governance, limits to bureaucratic interference, a firm stance against corrupt practices, fair and predictable taxation, and transparent accounting.

Co-operation between neighbours is essential in setting priorities and allocating resources. It generates self-confidence and a spirit of co-ownership. "Cross-border problems demand cross-border responses to ensure that security and prosperity are accessible to all." (10) Massive trade and development cannot be stimulated as long as political and security risks endure. That is why there might be two major points to plead for. The first one is that European and Euro-Atlantic institutions should enlarge as soon as possible. The second one comes from a national perspective: Romania to be included - as soon as possible - in these processes.

1. "Economic Developments and Reforms in Cooperation Partner Countries: The Link between Economics, Security and Stability", NATO Economics Colloquium, Brussels, 3-5 November 1999;
2. The North-Atlantic Treaty, Washington D.C., April 4, 1949;
3. "Security and Prosperity: Two Halves of the Same Walnut", Speech by the Rt. Hon. Lord Robertson of Port Ellen, PC, Secretary General of NATO, to the British Chamber of Commerce in Belgium, Brussels, 15 March 2001;
4. "The Alliance's Strategic Concept", Washington D.C., 23-24 April, 1999;
5. "Security and Prosperity: Two Halves of the Same Walnut", Speech by the Rt. Hon. Lord Robertson of Port Ellen, PC, Secretary General of NATO, to the British Chamber of Commerce in Belgium, Brussels, 15 March 2001;

6. Government of Romania, Government Program 2000-2004, "Relaunching National Economy";
7. "Priorities of Romania's Chairmanship-in-Office of the Black Sea Economic Co-operation Organisation" (1 May -1 November 2000);
8. "Economic Developments and Reforms in Cooperation Partner Countries: The Link between Economics, Security and Stability", NATO Economics Colloquium, Brussels, 3-5 November 1999;
9. Government of Romania, Government Program 2000-2004, "Relaunching National Economy";
10. Address by Romanian Foreign Minister, H.E. Mircea Dan Geoana, OSCE Chairman-in-Office, to the OSCE Seminar on "Transparency and Good Governance in Economic Matters; Institutions, Governance and Economic Performance" (Bucharest, 27-28 March 2001).